



# CALIFORNIA ISO

California Independent  
System Operator

Jim Detmers  
Vice President, Grid Operations

December 5, 2002

S. David Freeman  
Chairman  
California Consumer Power and Conservation Financing Authority  
901 "P" Street, Suite 142A  
Sacramento, California 95814

Re: Rulemaking: Establishment of Target Reserve Level for the California Power  
Authority Investment Plan, Docket 2002-7-01

Dear Mr. Freeman:

Mr. Kahn, Chairman of Governing Board of the California Independent System Operator Corporation ("CA ISO") forwarded to me the November 15, 2002, Proposed Final Decision in the California Power Authority's ("CPA") Rulemaking on a Target Reserve Level ("Proposed Final Decision"). The CA ISO appreciates your sharing this document with the CA ISO and soliciting our support.

The CA ISO continues to support the efforts of the CPA to promote a coordinated approach to reserve levels in California. We appreciate the discussion in the Proposed Final Decision of many of the comments submitted by the CA ISO during the course of the proceeding. We support the strong statements made about the importance of achieving adequate reserve levels and of load serving entities procuring power and reserve capacity sufficient to meet their needs and satisfy reliability criteria. Moreover, the CA ISO considers that the Proposed Final Decision moves in the right direction in adopting dependable capacity rather than installed capacity as the measure for reserves, in providing for on-going review of target reserve levels by the CPA for its own investment purposes, and in suggesting that ongoing proceedings on utility procurement plans before local regulatory authorities will have to take into account specific factors such as resource mix, historic performance, and contract terms and conditions.

In fact, the CA ISO believes that establishment of appropriate target reserve levels is crucial. Such levels should be designed to ensure compliance with operating reserve requirements established by the Western Electricity Coordinating Council and to provide a viable and stable platform to support investment. Reliability assessments must account for fuel diversity, location, deliverability, transmission constraints, and the actual

Mr. S. David Freeman

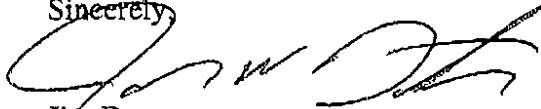
- 2 -

December 5, 2002

availability of resources to meet load. Moreover, responsibilities as to the achievement of reserve levels must be clearly and unambiguously defined ~~with~~ along associated time frames and financial and cost recovery mechanisms, and procedures must be in place to ensure on an ongoing basis that responsibilities are met.

The CA ISO intends to continue to work cooperatively with the CPA and other affected agencies and stakeholders to assure that timely and adequate reserves levels are achieved in California sufficient to maintain system reliability.

Sincerely,



Jim Detmers  
Vice President, Grid Operations  
California Independent System Operator

Cc: William Keese, Chairman, CEC  
Loretta Lynch, President, CPUC  
Michael Kahn, Chairman, ISO